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California Public Employees' Retirement System Enterprise Risk Management - Top Residual Risk Report							
Top Risks		Oversight		Management Assurance		Independent Reassurance	
Inherent Risk (Before Mitigations)	Residual Risks (Given Current Mitigations)	Board Committee	Executive Owner	Summary of Additional Planned Mitigation Strategies	Mitigation Status (Time, Budget, Effect)	Reassurance	Reassurance Source
Extremely High	 PSR 						
	PSR implementation could cause significant impacts to customer service levels, staff workload capacity, and information security.	Risk Management Committee	Deputy Executive Officer, Operations and Technology	<ul style="list-style-type: none"><li>• Complete staff and member transition readiness activities (April 2012)</li><li>• Provide education, training, and assistance to business partners (December 2011)</li><li>• Expand Audit Logging Security System</li><li>• Develop, Document and Train comprehensive Workaround procedures</li><li>• Conduct Business Impact Analysis of Workarounds and Service Level degradation</li><li>• Execute Production Simulation Tests</li><li>• Develop and implement post-implementation release schedule for PSR patches and upgrades</li></ul>		Not yet rated	OERM KPMG - IPOC
Extremely High	 Investment Controls and Systems 						
	Investment Office target operating model has been developed but not fully implemented. Weak controls, systems, and data could lead to inappropriate transactions, financial loss, and reputational harm.	Investment Committee	Chief Operating Investment Officer	<ul style="list-style-type: none"><li>• Implement the CFO functions, roles and responsibilities</li><li>• Delineate and document roles and responsibilities for FCSD, INVO, and Master Custodian</li><li>• Implement accounting model allowing full reconciliation of all trade activity accurately and timely</li><li>• Enhance Investment Accounting policies and procedures ensuring all activities are properly documented</li><li>• Implement new equity portfolio construction system and global equity investment book of record</li><li>• Implement operating event measurement and escalation processes</li><li>• Develop books of record strategy for private assets and valuation oversight process for private equity</li><li>• Establish Investment Office data management function</li><li>• Continue to push forward enhancements in AREIS, enabling the end to parallel processing</li><li>• Research ability to record Investment expenses in PeopleSoft GL</li><li>• Implement new travel policy, enhance restricted trading policy process, and train staff</li><li>• Complete financial reporting reengineering project</li></ul>		Not yet rated	Audits OERM Financial Statement Auditor
Extremely High	 Pension Funding 						
	Increased volatile employer contributions may put financial strain on employers and could result in employers opting to leave the CalPERS system, not making payments or failing to deliver on promises made.	BPAC Committee	Chief Actuary	<ul style="list-style-type: none"><li>• Deliver investment performance that exceeds benchmark results within acceptable risk targets</li><li>• Review actuarial policies and update as appropriate (June 2012)</li></ul>		Not yet rated	OERM Audits
Extremely High	 Investment Risk Management 						
	Current risk system is dated and risk budgeting framework is partially implemented. Inaccurate or incomplete risk data could lead to financial or policy compliance impacts.	Investment Committee	Chief Investment Officer	<ul style="list-style-type: none"><li>• Implement new investment risk management system and risk budgeting framework (June 2012)</li></ul>		Not yet rated	OERM
Extremely High	 Pension Reform 						
	Legislative proposals and ballot initiatives regarding pension reform could result in weakening of defined benefit system, loss of vested rights, inadequate benefits for new members, loss of contracting employers, and significant additional workload for implementation.	BPAC Committee	Deputy Executive Officer, Benefit Programs Policy and Planning	<ul style="list-style-type: none"><li>• Staff are meeting with stakeholders to review new proposals and specific proposed language. Each potential ballot proposition is reviewed and evaluated. Staff have a robust internal structure to respond quickly to new reports and proposals as appropriate and have developed internal guidance for response mechanisms.</li><li>• Establish a pension policy and research function (March 2012)</li><li>• Proactive education of decision makers</li></ul>		Not yet rated	OERM
Extremely High	 Information Security 						
	Breaches in information security could lead to loss of member personal health and financial data, and compliance violations.	Finance Committee	Assistant Executive Officer, Information Technology	<ul style="list-style-type: none"><li>• Implement the 2011 Information Security Strategy (June 2012)</li><li>• Develop and implement instant messaging, mobile endpoint, and malicious code policies</li><li>• Test PSR information security for member self-service functionality</li><li>• Adopt policies to address risks of sharing confidential information</li></ul>		Not yet rated	OERM Audits
High	 Long Term Care Program 						
	The fiscal and administrative aspects of the Long Term Care program may destabilize and result in program failure.	Health Committee	Deputy Executive Officer, Benefit Programs Policy and Planning	<ul style="list-style-type: none"><li>• The Program continues to carefully monitor the financial performance of the Fund.</li><li>• Staff developing programmatic improvement proposals for board consideration (2012)</li><li>• Program enhancements will be developed for implementation when TPA is selected (2012)</li><li>• Continuation of board approved premium increases for the comprehensive coverage through 2014 will continue to improve fund status.</li><li>• Implementing Board approved portfolio allocation (May 2011)</li></ul>			OERM
High	 Governance / Leadership 						
	Inadequate measures to improve governance and transparency could result in damage to the public trust in CalPERS and to employee morale.	Board Governance Committee	Chief Executive Officer	<ul style="list-style-type: none"><li>• Recommendations are being implemented this year and will be brought forward to the Governance Committee and Investment Committee, as appropriate. Completing implementation of the new Organizational Structure will enhance accountability by establishing new functions (e.g., CFO, pension policy function), clarifying roles and responsibilities, and consolidating functions. Full staffing of the Office of Enterprise Risk Management and refinement of its functions is also underway. CalPERS is supporting SB439 and AB873, which would establish additional restrictions relative to gifts and post-employment for pension fund employees and is also sponsoring legislation to establish authority to set the salary for the CFO position.</li></ul>		Not yet rated	OERM Audits
High	 Stakeholder Perception 						
	Failure to improve perception of CalPERS by members, employers, legislators and other stakeholders may erode trust, damage business relationships and opportunities, lead to recruitment and retention issues in the workforce, result in litigation, and prevent CalPERS from fulfilling its mission.	Risk Management Committee	Deputy Executive Officer, External Affairs	<ul style="list-style-type: none"><li>• Conduct Stakeholder Relations risk assessment</li><li>• Implement a strategy that combines marketing efforts across the organization (June 2012)</li><li>• Proactively inform Legislative leaders, key committee chairs and vice chairs, and consultants about issues that could have either a positive or negative impact on CalPERS reputation.</li><li>• Develop and implement a communications strategy to increase visibility and public presence of CalPERS leadership, ethics, governance and accountability in the media and among stakeholders</li><li>• Develop a social media strategy that targets growth, engagement, education and awareness of CalPERS online community.</li></ul>		Not yet rated	Audits

Key			
 Considering controls currently in place, the remaining risk exposure is <u>minimal</u> .	 Considering system and staff readiness, workload impacts, and mitigation strategies, mitigation plans are <u>on track</u> .		Considering planned mitigations and environmental factors, the risk is expected to <b>decrease</b> over the next 3-6 months
 Considering controls currently in place, the remaining risk exposure is <u>moderate</u> .	 Considering system and staff readiness, workload impacts, and mitigation strategies, mitigation plans are <u>at risk</u> .		Considering planned mitigations and environmental factors, the risk is expected to <b>remain constant</b> over the next 3-6 months
 Considering controls currently in place, the remaining risk exposure is <u>elevated</u> .	 Considering system and staff readiness, workload impacts, and mitigation strategies, mitigation plans are <u>off track</u> .		Considering planned mitigations and environmental factors, the risk is expected to <b>increase</b> over the next 3-6 months
 Considering controls currently in place, the remaining risk exposure is <u>high</u> .			